

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Gallatin County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$102,181 from the beginning of the year, resulting in a cash surplus of \$2,657,197 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements from the General Fund totaled \$13,507 as of June 30, 2003. Future principal and interest payments of \$14,786 are needed to meet these obligations.

Capital lease principal agreements from the 911 Fund totaled \$92,078 as of June 30, 2003. Future principal, interest payments, and fees of \$99,021 are needed to meet these obligations.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Present A List Of Individual Claims To The Fiscal Court For Review

Deposits:

The county maintained deposits of public funds with four depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2003, the county's deposits were uninsured and unsecured in the amount of \$251,579.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Gallatin County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Gallatin County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Gallatin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Gallatin County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2004, on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George W. Zubaty, Gallatin County Judge/Executive
Members of the Gallatin County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Gallatin County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Present A List Of Individual Claims To The Fiscal Court For Review

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 19, 2004

GALLATIN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

George W. Zubaty	County Judge/Executive
Eric Moore	Magistrate
Tom Ellis	Magistrate
Jim Campbell	Magistrate
Ken McFarland	Magistrate

Other Elected Officials:

John G. Wright	County Attorney
Jerry Webb	Jailer
Tracy Miles	County Clerk
Sue O'Connor	Circuit Court Clerk
Nelson Brown	Sheriff
Vesta Moore	Property Valuation Administrator
Brian Lowder	Coroner

Appointed Personnel:

Lesa Bullard	County Treasurer
Elaine Lillard	Finance Officer
Mike Satchwell	Road Supervisor

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

GALLATIN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type		Totals (Memorandum Only) Primary Government
	General	Special Revenue	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 574,582	\$ 2,097,291	\$ 2,671,873
Total Assets	\$ 574,582	\$ 2,097,291	\$ 2,671,873
<u>Other Resources</u>			
Amounts to be Provided in Future Years for:			
Capital Lease	\$ 13,507	\$ 92,078	\$ 105,585
Total Other Resources	\$ 13,507	\$ 92,078	\$ 105,585
Total Assets and Other Resources	\$ 588,089	\$ 2,189,369	\$ 2,777,458

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Types		Totals (Memorandum Only) Primary Government
	General	Special Revenue	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Payroll Liabilities	\$ 14,676	\$	\$ 14,676
Capital Lease	13,507	92,078	105,585
Total Liabilities	\$ 28,183	\$ 92,078	\$ 120,261
<u>Equity</u>			
Fund Balances:			
Unreserved	\$ 559,906	\$ 2,097,291	\$ 2,657,197
Total Equity	\$ 559,906	\$ 2,097,291	\$ 2,657,197
Total Liabilities and Equity	\$ 588,089	\$ 2,189,369	\$ 2,777,458

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GALLATIN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type	Special Revenue Fund Type		
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,012,128	\$ 594,561	\$ 43,117	\$ 212,138
Other Financing Sources:				
Transfers In	112,608	30,000	170,997	
Total Cash Receipts	<u>\$ 1,124,736</u>	<u>\$ 624,561</u>	<u>\$ 214,114</u>	<u>\$ 212,138</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,071,266	\$ 362,830	\$ 203,530	\$ 92,268
Other Financing Uses:				
Transfers Out	210,102	111,880		202,000
Capital Lease Principal Paid	7,393			
Total Cash Disbursements	<u>\$ 1,288,761</u>	<u>\$ 474,710</u>	<u>\$ 203,530</u>	<u>\$ 294,268</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (164,025)	\$ 149,851	\$ 10,584	\$ (82,130)
Cash Balance - July 1, 2002	<u>723,931</u>	<u>1,713,823</u>	<u>9,811</u>	<u>216,416</u>
Cash Balance - June 30, 2003	<u>\$ 559,906</u>	<u>\$ 1,863,674</u>	<u>\$ 20,395</u>	<u>\$ 134,286</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type						
Ambulance Fund	County Police Fund	911 Fund	911 Wireless Fund	Tourism Fund	Totals (Memorandum Only)	
\$ 326,730	\$ 52	\$ 138,862	\$ 10,615	\$ 3,147	\$ 2,341,350	
180,000	32,000			102	525,707	
<u>\$ 506,730</u>	<u>\$ 32,052</u>	<u>\$ 138,862</u>	<u>\$ 10,615</u>	<u>\$ 3,249</u>	<u>\$ 2,867,057</u>	
\$ 484,984	\$ 31,640	\$ 188,135	\$	\$ 1,485	\$ 2,436,138	
997				728	525,707	
					7,393	
<u>\$ 485,981</u>	<u>\$ 31,640</u>	<u>\$ 188,135</u>	<u>\$ 0</u>	<u>\$ 2,213</u>	<u>\$ 2,969,238</u>	
\$ 20,749	\$ 412	\$ (49,273)	\$ 10,615	\$ 1,036	\$ (102,181)	
541	12,049	81,954		853	2,759,378	
<u>\$ 21,290</u>	<u>\$ 12,461</u>	<u>\$ 32,681</u>	<u>\$ 10,615</u>	<u>\$ 1,889</u>	<u>\$ 2,657,197</u>	

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Gallatin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Gallatin County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Gallatin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Gallatin County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Gallatin County General Fund Type includes the following county funds: General Fund.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Gallatin County Special Revenue Fund Type includes the following county funds: Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Ambulance Fund, County Police Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Gallatin County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following is considered a joint venture of Gallatin County Fiscal Court: Tri-County Kentucky Airport Board

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with four depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into written agreements with each depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$251,579 of public funds uninsured and unsecured at one of the institutions.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2003.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by the county's agent in the county's name	298,548
Uncollateralized and uninsured	<u>251,579</u>
Total	<u><u>\$ 650,127</u></u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Note 4. Capital Lease-Purchase Agreements

The county has entered into the following capital lease-purchase agreements:

Liabilities of the General Fund are:

Description	Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
Sheriff's Cruiser	2004	\$ 844	\$ 6,549
	2005	435	6,958
Totals		<u>\$ 1,279</u>	<u>\$ 13,507</u>

Liabilities of the 911 Fund are:

Description	Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal	Scheduled Fees
911 Equipment	2004	\$ 2,091	\$ 17,209	\$ 585
	2005	1,605	17,792	449
	2006	1,102	18,395	308
	2007	582	19,019	163
	2008	45	19,663	13
		<u>\$ 5,425</u>	<u>\$ 92,078</u>	<u>\$ 1,518</u>

Note 5. Insurance

For the fiscal year ended June 30, 2003, Gallatin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Note 6. Public Properties Corporation

On November 22, 1999 the Gallatin County Fiscal Court formed a Public Properties Corporation. The purpose of this Corporation is to cooperate with, and to act on behalf of, at the direction of and as the agency, instrumentality, and constituted authority, of the county of Gallatin, Kentucky in the development, acquisition, financing, and/or refinancing of any public projects which may be undertaken by the County pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the County.

Note 7. Gallatin County Industrial Authority Board

During March 1997, the former Gallatin County Judge Executive appointed six people to the Gallatin County Industrial Authority. Two terms expired February 1998, two terms expired February 2000, and two terms expired February 2001. As of June 30, 2003 this board had \$2,246 in the bank.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

GALLATIN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,062,971	\$ 1,012,128	\$ (50,843)
<u>Special Revenue Fund Type</u>			
Road and Bridge Fund	514,087	594,561	80,474
Jail Fund	49,800	43,117	(6,683)
Local Government Economic Assistance Fund	237,500	212,138	(25,362)
Ambulance Fund	384,007	326,730	(57,277)
County Police Fund		52	52
911 Fund	283,674	138,862	(144,812)
911 Wireless Fund		10,615	10,615
Tourism Fund	29,500	3,147	(26,353)
Totals	<u>\$ 2,561,539</u>	<u>\$ 2,341,350</u>	<u>\$ (220,189)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 2,561,539	
Add: Budgeted Prior Year Surplus		844,107	
Less: Other Financing Uses		<u>(7,393)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 3,398,253</u>	

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SCHEDULE OF OPERATING REVENUE

GALLATIN COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	<u>GOVERNMENTAL FUND TYPE</u>		
	General Fund Type	Special Revenue Fund Type	Totals (Memorandum Only)
Taxes	\$ 481,285	\$ 89,063	\$ 570,348
In Lieu Tax Payments	89,158		89,158
Excess Fees	33,991		33,991
Licenses and Permits	32,091		32,091
Intergovernmental Revenues	307,123	844,830	1,151,953
Charges for Services	4,476	308,363	312,839
Miscellaneous Revenues	45,858	18,185	64,043
Interest Earned	18,146	68,781	86,927
Total Operating Revenue	<u>\$ 1,012,128</u>	<u>\$ 1,329,222</u>	<u>\$ 2,341,350</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

GALLATIN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 453,903	\$ 410,265	\$ 43,638
Protection to Persons and Property	128,703	72,855	55,848
General Health and Sanitation	316,198	311,661	4,537
Social Services	20,000	10,367	9,633
Administration	327,290	266,118	61,172
Total Operating Budget - General Fund Type	\$ 1,246,094	\$ 1,071,266	\$ 174,828
Other Financing Uses:			
Capital Lease Agreement-			
Principal on Lease	7,393	7,393	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 1,253,487</u>	<u>\$ 1,078,659</u>	<u>\$ 174,828</u>

GALLATIN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 1,070,918	\$ 913,052	\$ 157,866
Recreation and Culture	56,650	23,158	33,492
Roads	764,754	327,702	437,052
Capital Projects	139,219	23,494	115,725
Administration	120,618	77,466	43,152
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 2,152,159</u>	<u>\$ 1,364,872</u>	<u>\$ 787,287</u>
TOTAL OPERATING BUDGET - ALL FUND TYPES	<u>\$ 3,398,253</u>	<u>\$ 2,436,138</u>	<u>\$ 962,115</u>
TOTAL BUDGET - ALL FUND TYPES	<u>\$ 3,405,646</u>	<u>\$ 2,443,531</u>	<u>\$ 962,115</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George W. Zubaty, Gallatin County Judge/Executive
Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Gallatin County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gallatin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Present A List Of Individual Claims To The Fiscal Court For Review

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gallatin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gallatin County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- The County Should Present A List Of Individual Claims To The Fiscal Court For Review



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 19, 2004

COMMENTS AND RECOMMENDATIONS

GALLATIN COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

NONCOMPLIANCE

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2003, \$251,579 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive George W. Zubaty's Response:

Spoke with Neil at Farmers Bank of Milton on 5/18/04 and he admitted dropping the ball on securing our deposits and faxed me pledged securities to cover our deposits. The Treasurer will also do periodic checks to make sure funds have enough securities pledged to cover our deposits.

NONCOMPLIANCE AND REPORTABLE CONDITION

The County Should Present A List Of Individual Claims To The Fiscal Court For Review

Pursuant to KRS 68.275, "the county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." During our audit, we noted that for most of the year, there was only a voucher account summary list presented. We recommend that beginning immediately, a list of individual claims be presented to the fiscal court for approval.

County Judge/Executive George W. Zubaty's Response:

We initiated this change at the May 13, 2004 court meeting. Back in 2000 the Fiscal Court made mention that they preferred a simplified version of the claims submitted for approval.

PRIOR YEAR FINDINGS

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Auditor's Response:

County does have written agreements with each of its four depository institution; however, one institution had insufficient securities pledged as of June 30, 2003.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

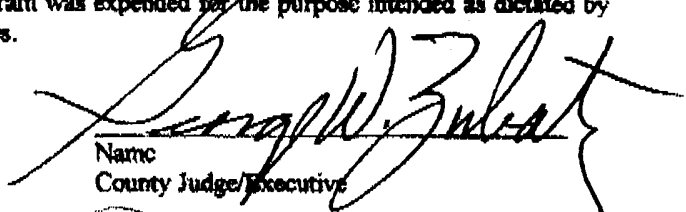
GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Gallatin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

